HOUSING MARKET ASSESSMENT

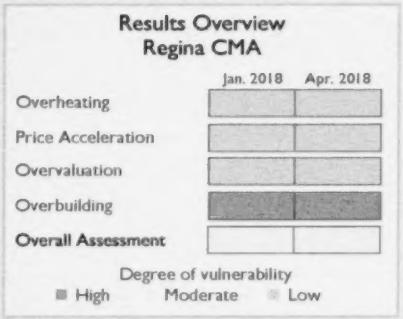
Regina CMA

Date Released: Second Quarter 2018

Canada

CMHC SCHL

Highlights



- No change in the overall assessment of Regina's housing market.[1]
- Low evidence of overvaluation, overheating and acceleration in the growth of house prices was maintained in Q4 2017.
- There continued to be high evidence of overbuilding due to elevated new housing inventory, particularly in the multiples sector, and a high apartment vacancy rate.

HMA Overview[2]

As Canada's authority on housing, CMHC contributes to market stability by providing information on potential imbalances that could affect housing markets. With the HMA, CMHC offers information and analysis that can help Canadians make more informed decisions.

The HMA combines the results from a technical framework with insights gained through CMHC's Market Analysts' knowledge of local market conditions. These insights position CMHC to provide additional context and interpretation to the results of the HMA framework.

The HMA framework detects degrees of vulnerability in local housing markets by identifying imbalances. An example would be the detection of overbuilding, a situation in which the inventory of unsold new homes accumulates due to supply outpacing demand. Such an imbalance could be resolved by an adjustment in house prices. As an example, lower prices would help resolve an excess supply imbalance by supporting stronger demand and/or reducing supply. However, other unexpected developments that do not originate from the housing market could accentuate or reduce an imbalance.

Colour codes indicate the degrees of market vulnerability. The HMA is a comprehensive framework that considers the intensity of signals of imbalances (that is, how far the indicator is from its historical average), and the persistence over time. Generally, low intensity and persistence are associated with a potentially low degree of vulnerability. As the number of intense and persistent signals increases, the associated degree of vulnerability increases.

In Detail

Low evidence of overheating

According to CMHC's Housing Market Assessment (HMA) framework, evidence of overheating in Regina's housing market remained low in the fourth quarter. The seasonally adjusted sales-to-new-listings ratio (SNLR), a measure of the balance between demand and supply, edged lower to 44% in Q4 2017 from 45% in Q3 2017 and has remained significantly below the framework's overheating threshold of 85%.

Seasonally adjusted MLS® sales in Regina's market declined to 816 units in Q4 2017 from 831 in Q3 2017. By contrast, new listings were higher in the fourth quarter, rising 2.1% to 1,858 units from 1,819 in the previous quarter.

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[1] Results are based on data as of the end of December 2017 and local market intelligence up to end of March 2018. CMHC continuously monitors market developments and will issue HMA updates on a quarterly basis.

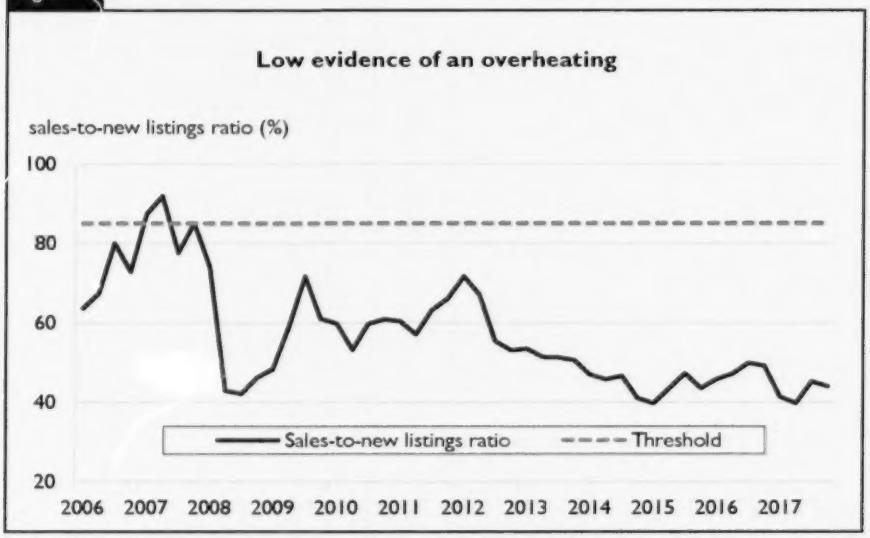
[2] A detailed description of the framework is available in the appendix of the National edition.

Evidence of price acceleration remained low

There continued to be low evidence of acceleration in the growth of house prices. Persistent buyer's market conditions kept downward pressure on home values. The seasonally adjusted average MLS® price declined by 3.5% to $307,496 in Q4 2017 from $318,641 in the preceding quarter. In addition, the MLS® HPI composite benchmark price[3] declined by 2.5% to $285,900 in Q4 2017 from $293,200 in Q3 2017, and was down by 2.8% in the quarter from a year earlier.

Within various market segments, the MLS® HPI benchmark prices for single-detached, townhouse and apartment units all declined in the fourth quarter from the third quarter of 2017, and were down on a year-over-year basis as well.

Figure 1



Source: CREA (seasonally adjusted), calculations (threshold) by CMHC
Last data point: 2017Q4

Low evidence of overvaluation maintained

The HMA framework continued to detect low evidence of overvaluation in house prices. The declining trend in various price measures was maintained in Q4 2017, while growth

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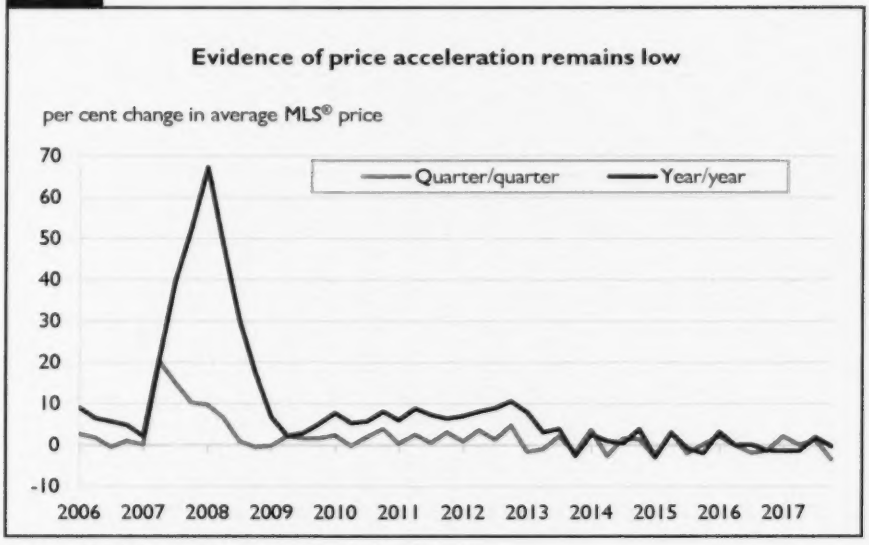
"The HMA framework continued to detect a moderate degree of vulnerability in Regina's housing market. A combination of elevated new housing inventory and a high apartment vacancy rate contributed to high evidence of overbuilding in the current assessment."

Figure 2



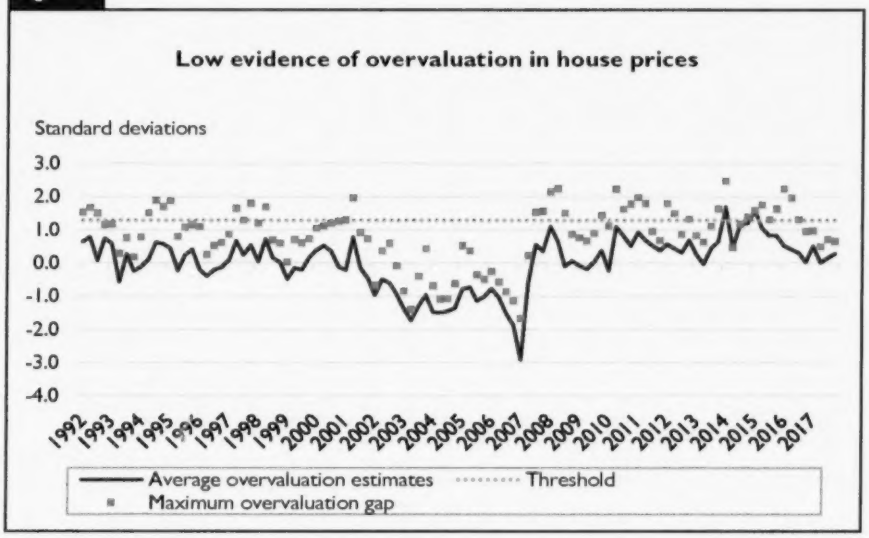
Source: CREA (seasonally adjusted), CMHC calculations
Last data point: 2017Q4

[3] Source: CREA. The MLS® HPI is based on a hybrid model that merges repeat-sales and hedonic price approaches, and reflects the contribution made by various quantitative and qualitative housing features toward the home price.

in underlying fundamentals such as the young adult population remained fairly strong.

As shown in figure 3, the average overvaluation estimates obtained from the selected models remained significantly below the threshold of overvaluation. In addition, the maximum overvaluation gap from the affordability model using the average MLS® price was also below the threshold. The affordability model estimates the level of prices that is consistent with fundamentals in relation to a maximum affordability measure; this measure is the maximum house value an average household could buy using the maximum amortization period and the current five-year mortgage interest rate if the mortgage payment were equivalent to 30% of the household's income.

Figure 3



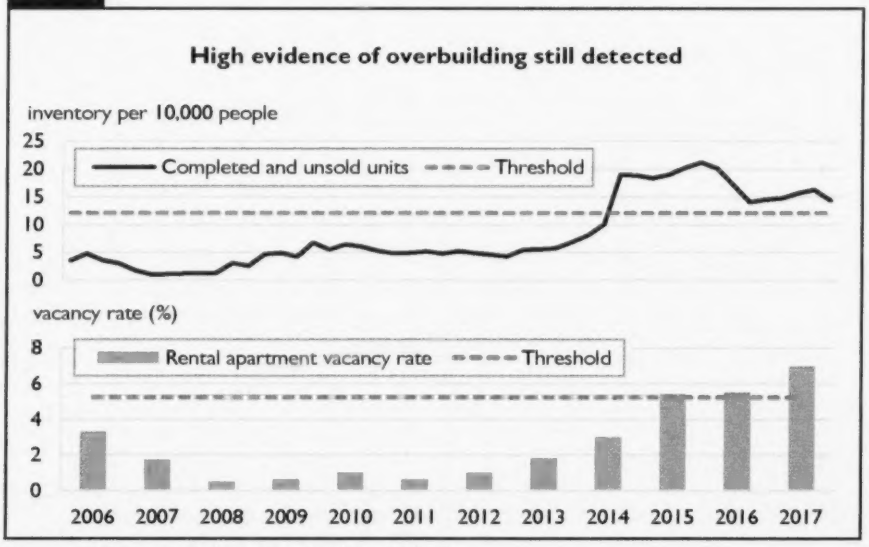
Last data point: 2017Q4
Sources: CREA, Statistics Canada and calculations by CMHC.
Note: The average estimate of overvaluation is the average gap between actual house prices and price levels estimated from a group of selected models. Baseline models include demand, supply, hybrid, and affordability models, each of which is estimated using four measures of house prices to generate sixteen unique estimates of overvaluation. The selection of models is conducted with a set of cointegration tests, and the selected models are estimated with Dynamic Ordinary Least Squares (DOLS). The maximum overvaluation gap is obtained from the model that has the largest gap between the actual price and the estimated price. The threshold is fixed at a critical value of 1.29 for a confidence level of 80%. Overvaluation is signaled when overvaluation estimates lie above the threshold

Evidence of overbuilding remains high

High evidence of overbuilding in the Regina housing market was maintained in the current release. While the inventory of completed and unsold housing units per 10,000 people moved lower to 14.37 in Q4 2017 from 16.28 in Q3 2017, it remained above the framework's critical threshold of 12.08. This is primarily due to the multiples sector where inventory levels were above their historical average.

Further, Regina's purpose-built rental apartment vacancy rate rose to 7.0% in 2017 from 5.5% in 2016, and is above its critical threshold of 5.22%. Therefore, the combination of elevated inventory and a high vacancy rate resulted in the framework's continued assessment of high evidence of overbuilding.

Figure 4



Source: CMHC, calculations (threshold) by CMHC
Last data point: 2017Q4

Overview of the Housing Market Assessment analytical framework

To obtain an accurate picture of the overall state of the housing market, it is important to consider multiple data points and lines of evidence rather than relying on just one measure or indicator.

The Housing Market Assessment (HMA) analytical framework provides a comprehensive and integrated view that relies on a combination of signals from several indicators to detect imbalances in housing markets.

Specifically, the framework considers four main factors that may provide an early indication of vulnerability in the housing market: (1) overheating (when demand outpaces supply); (2) sustained acceleration in house prices; (3) overvaluation of house prices in comparison to levels that can be supported by housing market fundamentals (listed below); and, (4) overbuilding (when the inventory of available housing units is elevated).

For each factor, the framework tests for: (1) the incidence of signs of vulnerability, but also considers; (2) the intensity of the signals, i.e. how their magnitude compares with their historical average or how consistent they are with known or suspected house price bubbles, such as for Toronto in the late 1980s and early 1990s; and, (3) the persistence of signals over time.

Generally, a situation in which we detect few signals with low intensity or lack of persistence is associated with a low degree of vulnerability. Conversely, as the intensity, number, and/or persistence of the signals increases, so does the evidence of imbalances in the housing market.

The framework takes into account demographic, economic, and financial determinants of the housing market such as population, personal disposable income, and interest rates to detect vulnerability. The framework also takes into account developments in both resale and residential construction markets.

The framework was developed on the basis of its ability to detect vulnerable housing market conditions in historical data, such as the house price bubble Toronto experienced in the late 1980s and early 1990s. The ability of the HMA to detect vulnerabilities relies on the assumption that historical relationships between prices and fundamental drivers of housing markets have not changed.

Housing Market Assessment Factors

Overheating

Overheating is caused by demand significantly and persistently outpacing the supply of housing. The sales-to-new listings ratio is used as an indicator to assess possible overheating conditions in the existing home market. To identify signs of overheating, the framework compares the sales-to-new listings ratio to thresholds. When demand is strong relative to supply, house prices typically grow at a faster rate. Sustained overheating on the existing home market may lead to acceleration in house prices for existing and new homes. However, as supply and demand begin to balance out, indicators of overheating (and acceleration) would begin to soften and house prices would gradually moderate.

Acceleration in House Prices

Under balanced market conditions, house prices are expected to increase over time, in line with increases in households' cost of living. House price acceleration occurs when the growth in house prices strengthens over time on a persistent basis. Acceleration in house prices over an extended period can cause their pace of increase to depart from the overall price inflation and eventually lead to overvaluation.

To assess acceleration in house prices, the HMA framework uses a statistical test* that was developed to identify periods of accelerating asset prices.

Overvaluation

Overvaluation is detected when house prices remain significantly above the levels warranted by fundamental drivers of housing markets such as income, population, and actual and expected financing costs.

The HMA framework uses combinations of different house price measures and models to estimate house price levels warranted by fundamental drivers. The difference between observed house prices and their estimated levels consistent with housing market fundamentals allows for an estimation of the degree of over- and undervaluation. The use of different price measures and models improves the reliability of results.

Overbuilding

Overbuilding is detected when the supply of readily available housing units significantly exceeds demand. In such a context, downward pressure on house prices would occur until the excess supply is eventually absorbed. To assess signs of overbuilding in the housing market, the HMA framework uses two indicators that relate to the supply of readily available housing units: the rental vacancy rate, and the inventory of completed and unsold housing units per 10,000 population. The HMA framework compares the current level and recent trends in these indicators with thresholds.

Note 1: Colour codes indicate the degree of market vulnerability. The HMA reflects a comprehensive framework that not only tests for the presence or incidence of signals of imbalances (that is, how far the indicator is from its historical average), but also considers the intensity and the persistence of these signals over time. Generally, low intensity and persistence are associated with a lower vulnerability. As the number of persistent signals increases, the evidence of an imbalance increases.

Note 2: Results at the CMA level are not segmented by housing type or neighbourhood. They represent an assessment of the entire CMA. However, specific CMA reports provide further detailed analysis of these markets.

Note 3: The colour scale extends to red only for those factors that have multiple indicators that can identify imbalances. As a result, only overvaluation and overbuilding can receive a red rating, since they are assessed using more than one indicator.

Note 4: To ensure the framework is as current as possible, on a regular basis, we undertake a model selection process whereby our house price models for overvaluation are tested for statistical significance at the national and CMA level. The result of this process may change the number of indicators showing vulnerability from the previous assessment.

* See Phillips, Wu and Yu (2008) "Explosive Behaviour in the 1990s NASDAQ When Did Exuberance Escalate Asset Values?" for further details on the methodology.

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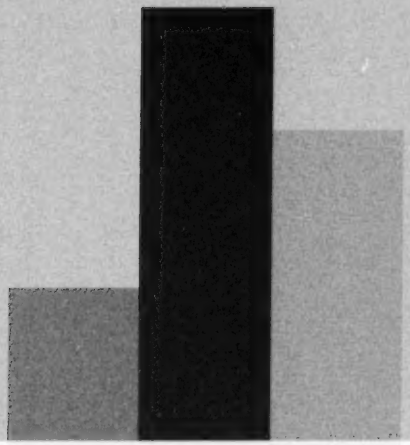

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